

ELIOT L. ENGEL
17TH DISTRICT, NEW YORK

COMMITTEE ON
ENERGY AND COMMERCE

SUBCOMMITTEES:
HEALTH
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VICE CHAIRMAN, DEMOCRATIC
TASK FORCE ON HOMELAND SECURITY

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Congress of the United States
House of Representatives
Washington, DC 20515-3217

January 24, 2005

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2264 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-3217
(202) 225-2464

DISTRICT OFFICES:
3655 JOHNSON AVENUE
BRONX, NY 10463
(718) 796-9700
6 GRAMATAN AVENUE
SUITE 205
MOUNT VERNON, NY 10550
(914) 699-4100

261 WEST NYACK ROAD
WEST NYACK, NY 10994
(845) 735-1000

Website: www.house.gov/engel

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JAN 24 2005

Office of Legislative Affairs

The Honorable William H. Donaldson
Chairman
Securities and Exchange Commission
450 5th St., NW
Washington, DC 20549

Re: File No. S7-10-04 Proposed Rule on Regulation NMS

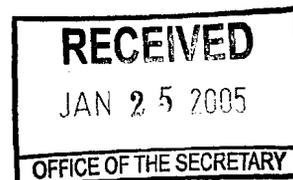
Dear Chairman Donaldson:

I write to express my concern about the Securities and Exchange Commission's proposed Regulation NMS, which is designed to update and strengthen our national securities markets.

While Regulation NMS will have many ramifications, its success or failure will ultimately rest on how it deals with inter-market competition, quote competition, and the balance between the two. I support the Market BBO Alternative, which preserves the inter-market competition that benefits all securities industry participants. On the other hand, I have serious reservations about the Voluntary Depth Alternative, which would radically change the structure of the U.S. capital markets and damage our internationally competitive, investor-driven markets.

The proposed Voluntary Depth Alternative would create a trading system, which shares many of the problems of a Consolidated Limit Order Book (CLOB), a radical concept first envisioned in the late 1970's, then debated and rejected by Congress and the SEC in 2000. This proposed alternative would require mandatory depth-of-book order routing that would turn market centers into mindless order routers and would increase investors' execution costs. The CLOB was rejected by Congress and the SEC previously, and likewise the Voluntary Depth Alternative should be as well, for one overriding reason: it would effectively nationalize the U.S. equity markets, removing incentives for markets to compete with one another.

The U.S. equity markets are currently the strongest in the world. Today, we benefit from competition within markets and competition between markets. These competitive forces combine to create low transaction costs, tight spreads, low volatility, innovative price discovery and equal protection and choice for all investors – large and small.



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Intermarket competition is currently transforming the largest equities market in the world. The Voluntary Depth Alternative would undermine the competitive forces that lead to such market innovation. It is unclear why the SEC has proposed to fix what is not broken, and put the competitiveness of the U.S. capital markets at risk.

I urge you to consider carefully the adverse consequences of the Voluntary Depth Alternative before moving in this precarious direction.

Sincerely,

A handwritten signature in black ink that reads "Eliot L. Engel". The signature is written in a cursive, slightly slanted style.

Eliot L. Engel
Member of Congress